Tennessee Board of Regents
Shelby State Community College

For the Years Ended
June 30, 1997, and June 30, 1996

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October 6, 1998

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles E. Smith, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. Floyd Amann, President
Shelby State Community College
737 Union Avenue
Memphis, Tennessee 38174

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Shelby State Community College, for the years ended June 30, 1997, and June 30, 1996. You will note from the independent auditor's report that a qualified opinion was given on the fairness of the presentation of the financial statements. The college has elected not to record the liability for accrued compensated absences in its financial statements. In our opinion, accrued compensated absences should be recorded to conform with generally accepted accounting principles.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The college's administration has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/rm
98/026

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit

Shelby State Community College

For the Years Ended June 30, 1997, and June 30, 1996

AUDIT OBJECTIVES

The objectives of the audit were to consider the college's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

INTERNAL CONTROL FINDINGS

Maintenance Workers' Misappropriation and Abuse of Time Totaling $2,800

A maintenance worker and a maintenance supervisor performed personal business activities on state time and charged the state for materials. They also made repairs to personal vehicles and billed the college for the automotive parts. Total known costs to the college were $2,829.98 (page 15).

Improper Actions of Faculty Member Totaled $1,370

A temporary faculty member misused the college's postal services, telephone, and credit card. The college detected the attempted misuse of the postal services ($997) and stopped it before the loss occurred. Improper telephone and credit card charges ($373) were incurred and were not recovered (page 19).

Accounts Receivable Collection Efforts Not Adequate**

Collection policies and procedures were not followed for student, daycare, and third-party receivables (page 28).

Better Accountability for and Reporting of Equipment Needed**

Control policies and procedures for the safe-guarding and financial reporting of the college's equipment are not followed. Equipment balances were overstated by $50,414.69 on June 30, 1997, and by $429,294.26 on June 30, 1996 (page 29).

Inadequate Internal Controls Over Data Processing

Adequate internal control policies and procedures over data processing security have not been established (page 32).

COMPLIANCE FINDINGS

Property Losses and Investigations of Malfeasance Not Reported to Comptroller of the Treasury
The college has not complied with Section 8-19-501, *Tennessee Code Annotated* which requires the reporting of shortages and losses to the Comptroller (page 21).

Families First Program Overcharged $115,672.51
Training expenditures of $115,672.51 charged to the grant could not be supported (page 22).

Refunds to Financial Assistance Programs Not Properly Calculated or Paid Timely*
The Financial Aid office did not properly calculate refunds to the Title IV Student Financial Assistance programs or remit them within the required time frames. Costs of $4,128.95 were questioned (page 24).

Financial Assistance Inappropriately Awarded**
The Financial Aid office made awards to students who were not eligible, resulting in questioned costs of $928.50 (page 26).

Tech Prep Grant Overcharged $6,154.59
The salary of the Director of the Tech Prep grant was paid entirely by the grant, although 25% of her time was not spent on the grant (page 33).

* This finding is repeated from the prior audit.
** This finding is repeated from prior audits.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is qualified because of the omission of the liability for accrued compensated absences from the financial statements.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
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INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Shelby State Community College. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any state governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

Shelby State Community College was founded in 1970 and held its first classes in the fall of 1972. This multi-campus institution is designed specifically to serve a wide variety of higher educational needs for residents in the Memphis-Shelby County area.

ORGANIZATION

The governance of Shelby State Community College is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the college is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 1995, through June 30, 1997, and was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the years ended June 30, 1997, and June 30, 1996. Shelby State Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the college's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;

2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;

3. to determine the fairness of the presentation of the financial statements; and

4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The college filed its report with the Department of Audit on October 31, 1997. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the college had corrected previous audit findings concerning upper management's internal controls over college operations, notes receivable collection efforts, controls over the drawdown of federal funds, and the timely crediting of financial assistance awards to students' accounts.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning awards made to students who were not eligible or for whom eligibility was not documented, failure to properly calculate or document refunds due to the Title IV programs, accounts receivable controls, and adherence to equipment policies. These findings have not been resolved and are repeated in this report.

OBSERVATIONS AND COMMENTS

During the audit, information was received from Shelby State faculty and staff pertaining to their concerns. As a result of these concerns, relevant documents were examined and faculty and staff were interviewed. The specific issues reviewed are summarized below.

1. Allegedly, the president of the college had (a) improperly appointed staff, (b) been aware of improprieties but had taken no action, (c) purchased furniture and small tools for his personal use, (d) played golf with various employees and contractors bidding on contracts for Shelby State, (e) directed college staff to build a dog house for his pet and (f) directed that a private shower be installed in his office.

   a. Based on the review, the appointments of the Americorp Grant Director, the Belts Grant Director, and the Financial Aid Director appear appropriate. It was determined that there were no specific education or experience requirements for the position of the Americorp Grant Director. The director was transferred at his current salary from his previous position as Interim Dean of Students, a position which was then eliminated. This transfer did not require Tennessee Board of Regents approval. The Belts Grant Director was appointed by the former Dean of Business and Human Services, not the president. Although the current director's public relations firm had contracted with the college through the Belts Grant for the year ended June 30, 1997, the current director was hired for the year ended June 30, 1998. The grant budget for the year ended June 30, 1998, included funds for public relations consulting but no grant funds were spent on consulting during that fiscal year. It was also determined that no payments, other than salary, were made to the current director's public relations firm or directly to the director for any work from Shelby State for the year ended June 30, 1998. Finally, it was determined that the Financial Aid Director appointed by the president had been terminated from State Technical Institute at Memphis (STIM) as alleged. According to Shelby State's president and personnel in STIM's Human Resources Department, the director was terminated for apparent conflicts with staff. However, the institute's administration had recommended the director to Shelby State's president and had apprised him of the circumstances surrounding the director's termination.

b. Based on the review of alleged improprieties reported to the president, it appears that the president appropriately referred such allegations to internal audit. One instance of impropriety dealt with maintenance workers' misuse of state time and equipment. Specifically, the maintenance workers allegedly used materials purchased on two Shelby State invoices in personal jobs off campus. This information was referred to internal audit in February 1997. The internal auditor's review was conducted in the summer of 1997 and consisted of confirming with the maintenance supervisor whether the items purchased on the two invoices were used at the college. The maintenance supervisor told the internal auditor that part of the items were used at Shelby State and that the remaining items were on hand in the inventory of supplies. After observing items in supply similar to those on the Shelby State invoice, the internal auditor concluded that the allegations could not be confirmed (see finding 1). In addition, it was alleged that grant money had been received for a swipe-card security system, although no such system was ever installed. From inquiries and a review of correspondence, it appears no grant was ever received for a swipe-card system.

c. A review of purchases of small tools and furniture did not reveal any inappropriate purchases.

d. Based on interviews and the president's itinerary, it appears that the president did on occasion play golf during state time with employees and on one occasion with a representative of a vendor. Documentation of ten such golf sessions in calendar year 1997 and two such sessions in calendar year 1998 was reviewed. According to the president, he arranged for donations for the college, developed community relations, and dealt with personnel issues during these sessions. Because of the nature of their positions, presidents of state institutions of higher education are given broad discretion with regard to their day-to-day activities. These golf sessions do not appear to be a clear violation of relevant policies, although all individuals holding such offices need to recognize the need to avoid appearances of impropriety.

e. Based on a review, it appears that the president did not have college staff build a dog house for his pet. No dog house was observed during a visit to the president's personal residence.

f. Based on a review, it appears that the installation of a private shower in the President's office was appropriate. Capital funds, which are for building improvements, were used to install the shower.

2. Allegedly the Vice President of Business and Finance purchased equipment for the president's personal use. Furthermore, it was alleged that the vice president had a state computer installed at his personal residence during school hours. Based on interviews and a review of expenditures, all purchases made by the Vice President of

Business and Finance's office and the installation of a computer at the vice president's home appear appropriate.

3. Allegedly the former Physical Plant Director (a) obtained personal items for the president with state funds, (b) directed employees to perform work at the president's personal residence during regular work hours, (c) owned real property that was rented by employees, (d) directed employees to perform work on his rental properties during regular work hours, (e) had his personal vehicle and those of his wife and friends maintained at the college's garage, and (f) instructed a department head to submit a purchase request without obtaining the required bids.

   a. Interviews and a review of invoices and expenditures did not reveal any evidence that the former director purchased items for himself or the president with state funds.

   b. No documentation of the allegations could be found, although considering the nature of these allegations, little or no documentation would be expected. When interviewed, the individuals identified as having knowledge of these matters denied these activities ever took place.

   c.-e. Based on interviews and a review of property deeds and invoices, it was confirmed that the former director owned rental real property and rented one property to an employee. The verbal rental agreement with the employee provided for the renter to perform maintenance and repair work on the property in lieu of rent. It was also confirmed that maintenance and repair work was performed on another of the director's rental properties and his personal residence, some of which occurred on state time. Although the former director denied he directed any of this work to be performed on state time, one of the employees stated that on several occasions he and his supervisor were directed to perform emergency repairs to these properties. Though the employee did not recall specific directions to perform the work on state time, he stated that the directions were given during state working hours. Consistent with the rental agreement, the director did not pay for this work. Furthermore, the former director acknowledged that small repairs to his automobile and those of other faculty and staff were occasionally performed at the college's garage and that he did not pay for this work on his automobile. The former director denied that any vehicles belonging to his family or friends were serviced in the college's garage. These items are addressed in detail in finding 1.

   f. According to a memorandum from the director to a department head who had previously requested that work be performed for his department, the department head had to submit a purchase request but did not have to obtain bids. From interviews and a review of remodeling expenditures, all remodeling work was charged to a Tennessee Board of Regents (TBR) contract which was initially bid appropriately by the University of Memphis. According to TBR policy, other

Board of Regents institutions can obtain services from the vendor awarded such an open contract. Therefore, it appears that the relevant bid requirements were met.

4. Information was received that certain grant funds were improperly used and other funds improperly transferred between accounts. It was confirmed that one transfer in question (of funds to the Shelby State Department of Criminal Justice account) was made during the audit period. However, this transfer was a correction of an accounting error which occurred in 1991. No other transfers to the Criminal Justice Department were found. It appears the grant funds received were appropriate for the amount of expenditures incurred. In addition, it was confirmed that the Director of the Tech Prep Grant spent 25 percent of her time on duties unrelated to the grant. This activity violated the grant contract which required 100 percent of the director's time if 100 percent of her time was charged to the grant. It was confirmed that the full budgeted salary (100 percent) of the director was charged to the grant. This violation is addressed in detail in finding 10. Other information received regarding the use of grant funds did not reveal any improper use of such funds. It was alleged that all equipment purchased through the Entrepreneurial Development Institute Grant had not been returned after the grant was closed. A representative from the grantor stated that all equipment had been properly returned. A review of transactions between Shelby State Community College and the foundation for the years ended June 30, 1998, 1997, and 1996 revealed no improper transactions. On several occasions, money was received by the college that was intended for the foundation. These funds were subsequently and properly transferred to the foundation. Furthermore, a review of foundation expenditures for the period April 1996 through June 1998 revealed no inappropriate expenditures. All expenditures were adequately supported and properly approved.

5. Information of inappropriate or insufficient administrative responses to budgetary, personnel, and other matters was also received. Since this information related to the exercise of discretion by management and did not directly pertain to financial matters, the Tennessee Board of Regents, not this office, is reviewing this matter.

6. Inadequate searches by the Shelby State administration to fill vacant positions was also alleged. Since this information also did not directly pertain to financial matters, the Tennessee Board of Regents, not this office, is reviewing this matter.

7. It was alleged that a former employee had misused (a) the college's postage service and (b) the telephone, fax machine, and credit card for personal benefit.

    a. The misuse of the college's postage services had been reviewed and confirmed by the internal auditor in January 1998. According to the internal audit report dated February 13, 1998, a temporary faculty member had during the first week of January 1998 attempted to mail 10,071 envelopes containing personal greeting cards. Postage for these would have cost the college $997.03.

b. The same employee's alleged misuse of the telephone, fax machine, and credit card was reviewed by the Division of State Audit since the internal auditor had not received this allegation in January 1998. It was determined that on one occasion the temporary faculty member had improperly used the college's credit card to purchase alcoholic beverages. Personnel in the college's business office detected this improper credit card charge of $44.70 during a February 1998 routine review of grant expenditures. From a review of a sample of long-distance phone charges and charges for the use of the fax machine, it appeared that most of the former faculty member's $328.63 in long-distance charges for the year ended June 30, 1998, were personal in nature. The details of this employee's misuse of the college's postage services, telephone, and credit card are included in finding 2.

8. It was alleged that the maintenance supervisor was commuting to and from home in a college vehicle. The maintenance supervisor and his former director were interviewed and both agreed the maintenance supervisor had been given permission to take the vehicle home. The former director stated that he allowed this use of the college's vehicle because the supervisor was on occasion required to return to the campus after hours. The former director recalled specific occasions when the supervisor had to return to the campus. The use of the college's vehicle appeared justified and was appropriately approved.

9. It was alleged that (a) thousands of dollars of computers, VCRs, textbooks, and personal items had been stolen from Shelby State classrooms, offices, and loading docks over the last several years. It was also alleged that (b) several employees were terminated for some of these thefts and that (c) a former employee was caught stealing in the college bookstore, permitted to resign, and then recommended for rehire at Shelby State.

a-b. Based on a review and observation of college equipment records, it was confirmed that from July 1, 1995, through June 30, 1998, $460,311 of equipment had been reported lost or stolen from the college. These items and the termination of employees for unrelated losses are addressed in detail in finding 3.

c. Based on interviews and a review of the Campus Police Incident Report, it was confirmed that a former employee was caught stealing a $47 textbook from the college bookstore. The employee reimbursed the bookstore for the textbook and was allowed to resign from his employment at Shelby State. It was also confirmed that the department head subsequently recommended him for rehire at the college. According to the department head, since the employee resigned and was not terminated, she thought she was required to recommend him for rehire. According to TBR officials however, it is at the department head's discretion whether to recommend employees for rehire.

10. It was alleged that an employee was terminated but was kept on the payroll. From a review of payroll, personnel documents, and legal correspondence, it was determined

that the employee was removed as the Vice President for Development but was retained as a tenured professor. This change in the employee's position was approved by the Tennessee Board of Regents. The employee became ill and was on sick leave from October 1, 1997, through May 28, 1998. The college received letters from the employee's doctor stating she was unable to return to work during this period. In addition, the employee requested leave through the Family Medical Leave Act. The employee's salary for the period January through May 1998 was appropriately paid in accordance with TBR policy and disbursed over the eight months ending August 1998.

11. It was alleged that over the past few years students' grades have been changed in the Records Office. It was alleged that (a) a student's biology grade was changed from F to B without the instructor's knowledge, (b) another student had received credit for two courses she had never taken, (c) the former department head of Nursing had inappropriately changed grades, and (d) the former department head of Criminal Justice had changed some grades. Furthermore, it was alleged that (e) some student and personnel files were missing and some contained misfiled information.

    a. Based on a review, it was determined that a student's biology grade was inappropriately changed. In December 1997, a student asked his advisor if he could drop the biology course he was currently failing. The student had previously failed the same biology course in the Fall of 1995. Prior to seeking this advice, the student had obtained a copy of his academic transcript and discovered that he had actually received a B instead of an F for the biology class he took in 1995. The advisor referred this matter to the Dean of Arts and Sciences, who in turn, referred it to internal audit. The internal auditor concluded that a former temporary employee had inappropriately changed the grade. The Division of State Audit's review of the grade roster confirmed that on December 18, 1995, the instructor had submitted an F to the Records Office for this student. According to the student's computer records, the F was changed to a B on January 29, 1996, by someone in the Records Office. The operator code used to change this grade was a code used by many temporary and part-time employees who did not have a code assigned to them. A temporary employee was terminated from service on August 13, 1996, for changing grades, but the grades the employee had inappropriately changed were not documented. Efforts to interview this former employee have been exhausted. Although it was determined that this grade was inappropriately changed in December 1997, the grade was not reversed until August 18, 1998.

    b. Based on a review, two students' transcripts were switched, apparently the result of a filing error in the Records Office. The errors had already been detected and corrected. One student notified her advisor that she had never taken two classes that appeared on her academic transcript. The advisor notified the Dean of Arts and Sciences, who in turn notified the internal auditor. The two students were both transfer students from the University of Memphis, had identical last names, and very similar first names. Typically when Shelby State receives a transcript from another college, the Records Office pulls the student's file, identifying it by the student's name and social security number on the tab of the file. The Records Office employee then enters the transcript data into the computer using the student's social security number. When Shelby State received these two students' transcripts, the employee apparently obtained the incorrect student file, entered the social security number from the file, not from the transcript, and entered the transcript data for the incorrect student. The internal auditor notified the Records Office on November 10, 1997, of the error. A subsequent review of the two students' files on August 18, 1998, revealed that they had been corrected.

c. Based on interviews and a review of student computer files, it was determined that the allegation could not be substantiated.

d. Based on interviews and a review of a sample of student files, it was determined that the allegation could not be substantiated.

e. Based on interviews, observations, and a review of personnel and student files, it appears that no files were missing and that the files contained the appropriate information. A sample of 60 student files was selected for review, and all files were located. All files contained student applications, and 53 files contained the students' high school transcripts or other applicable documentation. Of the seven files not containing transcripts or other documentation, six were for students who had first applied to the college over ten years ago. The computer records indicated the transcripts had been received and reviewed prior to the current applications in accordance with existing policy. For the remaining file, the student preregistered before graduation, and the college obtained a form from the student's high school stating that they anticipated his graduation. The college never received the actual transcript.

   A sample of 60 personnel files was selected for review. All files were located and contained the required information, and no misfiled information was observed. From inquiry and observation, it appears that physical security over personnel files was adequate. Access to the files was limited to Human Resources employees who are required to sign out files. Other employees may only view their files in the presence of a Human Resources employee. It appears that there are no significant problems with student and personnel files.

12. It was alleged that employees in the Physical Plant were often off campus for matters unrelated to the college and that other employees were validating time cards on the time clock for these individuals. Because of the nature of these allegations, little or no documentation would be expected to exist. When interviewed, the individuals identified as having knowledge of these matters denied these activities ever took place. However, it was confirmed that a supervisor had falsified a maintenance workers' time cards and time and attendance records. If the maintenance worker did not return to campus on the occasions he and the supervisor were performing personal work off campus, he would clock out the next morning and his supervisor would indicate on the

respective time card that the maintenance worker had worked 7.5 hours that day. This matter is discussed in finding 1.

13. Other information of improper conduct by administrators was also received. Since this information did not pertain to financial matters, the Tennessee Board of Regents, not this office, is reviewing this matter.

During the audit, the Tennessee Board of Regents notified the Division of State Audit of a potential misfeasance involving a Shelby State Community College employee. In verifying information on a student’s financial aid application, personnel in the Financial Aid Department determined that false information (alleged financial support for a dependent of the student) had been supplied on an application and that a college secretary rather than the student had allegedly filled out the student’s application. The department’s personnel also noticed that a number of student athletes had similar information regarding support for dependents on their applications. The department notified the college’s president on October 1, 1997. This matter was then referred to the internal auditor. After confirming that additional student applications had similar questionable items, the internal auditor reported this matter to the Tennessee Board of Regents on March 11, 1998. This failure to notify the Division of State Audit immediately is discussed in finding 3.

In a review of this matter, it was determined that five applications for the 1997-1998 school year contained false information relating to students’ support of a dependent individual. Four of the five students confirmed in interviews that they did not have a dependent or individual they were supporting. The mother of the fifth student stated that this student did not have a dependent or an individual he was supporting and that she had assisted him in preparing his applications for the previous year and the 1997-1998 school year. Two of the students stated that they had prepared their financial aid application without assistance. One student stated that he had assistance from a high school counselor but could not recall the name of the counselor. The fifth student stated that a secretary at Shelby State Community College had prepared his application without his assistance. He stated that he was not aware of the false information on his application until Financial Aid Department personnel questioned him about his support for a dependent in September 1997.

In an interview with the secretary, she stated that she had assisted several students in preparing their financial aid applications, including the application of the fifth student mentioned. However, she stated that all the information on the applications she helped prepare came from the students. A review of the applications the secretary assisted in preparing did not disclose any pattern of misinformation. In addition, the applications were submitted in a timely manner which would not have placed any undue burden on the student or the secretary to expedite or incorrectly prepare the application. Furthermore, no motive for the secretary’s supplying false information on the one student’s application was established. She stated that she had previously worked in the financial aid office and wanted to assist the students in this process.

The Financial Aid Department apparently corrected the applications and relative awards for these students for the school year 1997-1998. However, it appears that the false information for two of these five students for the school year 1997-1998 was also on the applications for the school year 1996-1997 for which the students received a Pell grant award. Further review of these two files is being conducted by the department, and any further action will be coordinated with the U.S. Department of Education.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 1997, and June 30, 1996, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Reportable conditions, along with recommendations and management's responses, are detailed in the findings and recommendations. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Immaterial instances of noncompliance, along with recommendations and management's responses, are included in the findings and recommendations.

Fairness of Financial Statement Presentation

The college has elected not to accrue the liability for compensated absences. Since this accounting practice is contrary to generally accepted accounting principles, the Division of State Audit has rendered a qualified opinion on the college's financial statements.

**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

March 11, 1998

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of Shelby State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 1997, and June 30, 1996, and have issued our report thereon dated March 11, 1998. Our report was qualified because the college omitted the liability for accrued compensated absences from the balance sheets. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

<u>Compliance</u>

As part of obtaining reasonable assurance about whether the college's financial statements are free of material misstatement, we performed tests of the college's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We did, however, note certain immaterial instances of noncompliance that we have included in the Findings and Recommendations section of this report. We also noted certain other, less significant, instances of noncompliance that we have reported to the college's management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the college's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the college's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable conditions were noted:

- Accounts receivable collection efforts need improvement.
- Equipment policies were not followed.
- Internal controls over data processing need improvement.
- Maintenance workers performed personal jobs off campus during state time and charged materials used to the college.
- A faculty member misused the college's postal services, credit card, and telephone.

These conditions are described in the Findings and Recommendations section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses.

We also noted other matters involving the internal control over financial reporting that we have reported to the college's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/rm

FINDINGS AND RECOMMENDATIONS

1. <u>Maintenance workers performed personal jobs off campus during state time and charged materials used to the college</u>

Finding

In February 1997, a college employee alleged to the faculty senate that maintenance workers were performing personal maintenance jobs off campus during state time and using state materials. This issue was forwarded to the college president and ultimately to the internal auditor for review. In the summer of 1997, the internal auditor reported to the president that the allegations could not be confirmed. Concerned faculty and staff later brought these and related allegations to the Division of State Audit's attention for further review.

On 46 occasions from January 1996 through April 1998, a maintenance worker and his supervisor performed personal jobs off campus, jobs for which they received compensation from various homeowners. They, however, performed 49.5 hours of this work on state time. The payroll costs associated with this work totaled $638.60, including the time the supervisor spent preparing his billings to homeowners. Furthermore, both maintenance workers charged various items totaling $1,787.06 to the state, items ultimately used on these personal projects and billed to the homeowners. It was also determined that the maintenance worker and his supervisor billed the college $273.32 for automotive parts and repairs for their personal vehicles.

In a July 16, 1998, interview, the maintenance worker admitted that at the direction of his supervisor he performed personal construction work on state time on approximately ten occasions. He further acknowledged charging Shelby State on two occasions for $22.94 of materials he used in the personal construction work, again at the request of his supervisor. The maintenance worker also acknowledged that he signed seven Shelby State time sheets indicating he had worked 7.5 hours when he actually had spent some of these hours on personal business.

During a July 17, 1998, interview, the maintenance supervisor admitted performing personal construction work on state time and instructing one of the maintenance workers to assist him. The supervisor admitted he indicated on his time sheet that he had worked 7.5 hours when he was actually off campus performing personal construction work. In addition, the supervisor admitted he had approved the time sheets of the maintenance worker assisting him in this personal construction work and had falsely indicated on this worker's time cards that he had worked 7.5 hour days. The supervisor also admitted charging items to Shelby State totaling $1,764.12 for these personal construction jobs and instructing the maintenance worker to do the same.

The supervisor acknowledged that he and the maintenance worker had been performing personal construction work for 16 years, even before they were employed at Shelby State. The supervisor acknowledged that the two file folders obtained from the state filing cabinet were his records relating to their personal work. He stated that he kept those records near his desk because on occasion he would work on billings to his clients (homeowners) on state time. He admitted he spent approximately ten hours total on his personal bookkeeping activities on state time. Based on his admissions, the payroll costs associated with his personal work on state time totaled $131.00

As indicated in the supervisor's records, one of the homes at which personal construction work was performed was that of the college's president. According to the supervisor, on March 30 and March 31, 1998, he and the maintenance worker spent approximately five hours each repairing the president's air conditioner on state time. He stated that the president was out of town and had no knowledge of the time of day they were working. A review of the president's travel claim and his itinerary for these two days determined that he returned home at 10:30 p.m. on March 30, 1998, from an out-of-town trip. On March 31, 1998, he was in town but did not return home until 7:00 p.m. Based on interviews and pertinent travel claims, it does not appear that the president had knowledge that the work was performed on state time. The supervisor also admitted charging materials used for the repair to Shelby State. According to the supervisor's records and the president's canceled checks, the president paid the supervisor $655.00 for labor and materials (which were also charged to Shelby State). The president stated that he had no knowledge that the college also paid for the materials.

According to the supervisor, he and the maintenance worker also performed personal construction work at the college's former Physical Plant Director's personal residence and his two rental properties. According to the supervisor, this work occurred on state time, but the former director was unaware of this fact. However, the maintenance worker stated that on a few occasions the former director should have known they were working on his residence and rental properties, for he had requested them during state working hours to perform the work. The maintenance worker could not, however, recall the details of these requests or whether the director had specifically stated or implied that the work was to be performed on state time. In an August 11, 1998, interview, the former Physical Plant Director denied having any knowledge of work performed on state time. He acknowledged that as director he was responsible for the Physical Plant employees and their whereabouts. However, he stated that he would not have known the specific locations of the maintenance workers because they were scattered throughout the main campus and three remote sites performing school maintenance work. He stated that the workers kept in contact with him and the Physical Plant via two-way radios. Although the director knew that the two employees had performed private maintenance work on personal real property including his property, it was concluded that he did not have specific knowledge of their improper activities on state time.

On August 6, 1998, the maintenance supervisor also admitted purchasing for his personal vehicle auto parts totaling $234.57 which he charged on the Shelby State account with the vendor. On August 7, 1998, the maintenance worker admitted charging $20.26 to Shelby State for auto parts for his personal vehicle. Subsequent to this interview, two additional invoices were found that indicated parts totaling $18.49 were also ordered by this maintenance worker for his personal vehicle.

An additional invoice signed by the supervisor indicated that a car battery totaling $31.00 was purchased for a vehicle not located in Shelby State's fleet. It was determined that the battery would only fit an imported vehicle. Shelby State owns only domestic vehicles. It was alleged that the supervisor had purchased the battery for the former director's Jaguar. Both the supervisor and the former director deny charging a battery to the college for their personal vehicles. The battery in the director's Jaguar was observed and did not appear to be the battery purchased on the Shelby State invoice.

The former Physical Plant Director denied having any knowledge that personal automobile parts and materials used on the personal construction work were charged to the college. He acknowledged that as director he was responsible for approving vendor invoices, but stated that he had signed 50 to 60 invoices per day as part of his former job and was unable to examine each one carefully. Although the former director failed to detect those items purchased for vehicles other than those belonging to the college, it does not appear that he had any knowledge that these purchases were personal in nature.

The additional allegations relating to the physical plant were received during the audit:

- It was also alleged that other employees within the physical plant had received personal benefit from having their personal vehicles worked on at the college. From our review of automotive part purchases, we determined that the son of a boiler room employee, volunteering his work at Shelby State from Fall 1995 through Spring 1997, had charged $35.09 to the college for automotive parts for personal use.

- It was also alleged that a grounds worker had charged a small amount of personal items to the college and had also performed work on personal furniture in the college's shop. This individual was on extended sick leave during the audit and has not been interviewed.

The maintenance supervisor's employment with Shelby State was terminated for gross misconduct on August 7, 1998. The maintenance worker's employment was terminated effective August 21, 1998. This information has been referred to the District Attorney General, Thirtieth Judicial District (Shelby County), for possible criminal prosecution.

The approval of invoices and monitoring of employees were previously performed by an assistant director. According to a former assistant director, this position was abolished because of budget cuts in 1996. No improper transactions were found for calendar year 1995 among the transactions reviewed. Although it may not have been possible for the former director to monitor the employees at the campus and off-site locations, an adequate review of invoices could have detected the improper purchases in their initial phase. Many of the improper purchases were transacted on weekends when only emergency work should be performed. Furthermore, this improper activity could possibly have been detected through management's concern for the numerous complaints involving maintenance projects or through a more diligent review by the internal auditor in 1997.

Recommendation

Management should ensure that invoices to the college are properly reviewed before being approved and are periodically matched with work orders.

Management should restrict the number of employees and volunteers ordering and picking up items from vendors.

Management should review the purchases of the grounds worker and request repayment of any questionable items from him and the former boiler room volunteer.

Management's Comment

We concur. The college has addressed this finding accordingly. Beginning July 1, 1998, which is the effective date of the resignation of the former Physical Plant Director, the Vice President for Business and Finance began approving all invoices pertaining to the Physical Plant operations. Prior to the receipt of the invoices by the Vice President, supervisors within the Physical Plant organization also sign the invoices acknowledging the receipt of the product or service. In addition to the authorizations by the supervisors, the Vice President obtains further information on some of the invoices for clarification before he authorizes them for payment.

Upon learning of the allegation of the misuse of open accounts in July 1998, the Vice President directed that all open accounts at vendors for maintenance items be closed. These accounts remain closed and a purchase order is required for all maintenance purchases regardless of how small the dollar value is.

A 100% review of all invoices signed by the grounds supervisor from the period July 1, 1996 through June 30, 1998 will be performed by the Vice President. Any questionable items will be reported to the Internal Auditor and reimbursement will be requested from the employee, if applicable.

Also, automotive vendor invoices will be reviewed for propriety to determine if any invoices are questionable. Appropriate reimbursement action will be taken if applicable.

Upon hiring of a new Physical Plant Director, the Vice President will inform him of the audit findings and will instruct him of the requirement to ensure that all invoices that are signed by him are unquestionably for materials and services appropriate to college activities.

Closer monitoring of Physical Plant activities is now done and we expect this monitoring to continue with the new Director and the random verifications by the Vice President.

2. A faculty member misused the college's postal services, credit card, and telephone

Finding

During the audit, information was received that a temporary faculty member had used the college's postage service, the telephone, fax machine, and credit card for personal benefit. The misuse of the college's postage services had been reviewed and confirmed by the internal auditor in January 1998. According to an internal audit report dated February 13, 1998, the temporary faculty member had attempted to mail 10,071 envelopes containing personal greeting cards during the first week of January 1998. But the internal auditor had not been made aware of additional alleged misuse of the college's fax machine, credit card, and telephone.

The review confirmed the allegations that personal long-distance telephone calls were made by this faculty member and that he inappropriately used his credit card on one occasion.

According to the internal audit report, the faculty member had requested the bulk mail stamp from the Mail Services Supervisor and returned the stamp with several boxes of envelopes stamped with the college's bulk mail stamp. After opening one of the envelopes and determining that the greeting cards were not related to college business, the supervisor retained the envelopes and reported the matter to the internal auditor. The internal auditor determined that if the bulk mailing been delivered, it would have cost the college $997.03. The internal auditor also determined that the internal controls over the use of the college's bulk mail permit were adequate. The faculty member was reprimanded and a letter was placed in his personnel file.

The Division of State Audit's review determined that this same faculty member with the Educational and Criminal Justice Department made personal long-distance phone calls from his office phone and from the departmental phone at Shelby State during the fiscal year 1997-1998. According to a sample of 19 long-distance phone numbers dialed from his office phone, the faculty member incurred charges for both in-state and out-of-state calls from July 1997 through May 1998. The majority of the calls were to out-of-state numbers and often after normal working hours. It appears that most of the total $328.63 in long-distance charges were personal in nature. In addition, it was discovered that the department head had questioned the excessive number of long-distance calls during her review of monthly long-distance phone charges sometime in the 1998 Spring semester. The department head did not, however, notify the internal auditor or the business office.

According to the department head, the faculty member's duties at the college did not require him to make out-of-state phone calls. The department head stated that she had verbally reprimanded him and instructed him to reimburse the college for these long-distance telephone calls. The faculty member resigned on May 1, 1998, before the total amount of personal long-distance phone charges was determined and reimbursed. A timely review of monthly phone charges, as required by Shelby State policy, might have detected this abuse as early as August 1997 (the second month of calls). After reviewing these calls, attempts were made to contact the former faculty member. Attempts to interview this former employee have been exhausted.

From the review of expenditures relating to the college's credit card issued to the faculty member, it was determined that on one occasion he had used the college's credit card to purchase $44.70 of soda and alcoholic beverages. This improper credit card charge was detected by personnel in the college's business office in February 1998 during a routine review of grant expenditures. According to the credit card receipt signed by the faculty member, the items purchased were "beer and soda." On February 23, 1998, the college's controller sent the faculty member a memorandum requesting reimbursement for the improper purchase. Because of the faculty member's failure to make reimbursement, he was sent a letter from the Vice President of Business and Finance on April 21, 1998, to notify him of the college's intent to withhold funds from his paycheck. The faculty member resigned on May 1, 1998, and received his last check before the $44.70 was withheld.

Recommendation

Management should attempt to contact the former faculty member to determine the extent of personal long-distance phone charges and request reimbursement for those calls and the credit card charge.

Management should ensure that all known losses are properly reported to the internal auditor and the business office for their response and any further action.

Management's Comment

We concur. The following actions will be taken in response to the recommendation.

1. The Vice President will review the policy with departments that require department heads to validate long distance calls as shown on the monthly telephone listing. Management will stress the importance of this process and will require a suspense date for returning the listings to the business department with a signature. Currently the listings are signed and returned intermittently.

   Reports that list all long distance calls are forwarded monthly to department heads and administrative directors for review with instructions that information concerning personal calls be forwarded to the Internal Auditor for review. This process began in December 1997 in response to a previous audit finding.

2. The former faculty member will be contacted by certified mail requesting reimbursement after a review of the credit card and telephone transactions to ensure the correct reimbursable amount. All previous mail to him has been returned by the post office because of a lack of a forwarding address.

An attempt to withhold funds from the employee was made; however, the employee resigned without notification before the process could be completed in accordance with the time lines referred to in T.C.A., Section 9-4-604.

3. Written instructions will be issued to all department heads informing them of their fiduciary duties involving losses and thefts in accordance with applicable State, TBR and Shelby State policies. Also, a manager will be appointed by the Vice President to administer this process.

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3. Property losses, possible malfeasance, and resolution of investigations were not reported to the Comptroller of the Treasury

Finding

Shelby State Community College did not keep the Comptroller's Office informed of property losses, possible malfeasance, and resolution of investigations. Section 8-19-501, *Tennessee Code Annotated*, states, "It is the duty of any official of any agency of the state having knowledge of shortages of moneys of the state, or unauthorized removal of state property, occasioned either by malfeasance or misfeasance in office of any state employee, to report the same immediately to the comptroller of the treasury."

- Over $460,000 in property losses were not reported to the Comptroller's Office: $331,506.14 during the year ended June 30, 1996; $26,455.24 during the year ended June 30, 1997; and at least $102,350.52 since June 30, 1997.

- The falsification of student financial aid applications, allegedly prepared by a college secretary, was referred to the internal auditor in October 1997 but was not reported to the Comptroller's Office until March 1998.

- The findings and ultimate resolution of three investigations relating to employee malfeasance were not reported, although the Comptroller's Office was initially informed of the cases:

    - Two employees who admitted purchasing approximately $2,000 of goods for their personal use were terminated.

    - Three employees were terminated for the theft of $1,176 in textbooks from the bookstore.

    - One employee was allowed to resign after he left the bookstore with a book without paying for it.

The statutory requirement to notify the Comptroller is to ensure a thorough investigation and an appropriate resolution in the best interest of the state.

Recommendation

The Vice President of Business and Finance should designate one individual to be responsible for completing and submitting the appropriate reports to the Comptroller of the Treasury. Property loss reports should be signed by the purchasing officer as verification that the item has been removed from the equipment listing and by the appropriate level of management. The internal auditor should promptly submit to the Comptroller's Office any initial indications of employee malfeasance and the ultimate findings related to investigations of employee malfeasance.

Management's Comment

We concur. It should be noted, however, that the property losses of $331,506 were determined as the result of a physical inventory of equipment that had been purchased since 1975. The large losses reported in 1996 were the result of a 100% physical inventory performed in fiscal year 1996 that had not previously been conducted. These losses have occurred over a twenty-year period and are not related to the single year of 1996.

All losses noted in this finding will be reported to the Comptroller's Office in accordance with Section 6-19-501 T.C.A.

The Vice President for Business and Finance will take steps to ensure that all employees are aware of the above-mentioned code and will appoint an employee in his division to be responsible for all reporting as stated in finding 2.

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4. Unallowable expenditures were charged to the Families First program

Finding

Shelby State Community College charged the Families First grant education and training expenditures of $115,672.51 that were not allowable.

The Families First guidebook states, "The program will help cover expenses not covered by Pell as stated in the Allowable Costs section. . . . Allowable costs will not exceed an average of $700 per participant per contractor." The contract with the Tennessee Department of Human Services states that the federal portion of the school's Families First expenditures will be 64.58% of the training and education expenditures.

The grant accountant interpreted the contract as saying that the federal share was 64.58% of $700 ($425.06) for each student participating, regardless of actual expenditures. Actual expenditures shown in the school's ledger for training were $56,784.94; therefore, the federal share (64.58%) would be $36,671.71. The amount requested from the program was $152,344.22, resulting in questioned costs of $115,672.51.

Recommendation

The questioned costs should be resolved with the grantor. The controller should ensure that only 64.58% of actual training costs are charged to the grant.

Management's Comment

Shelby State Community College

We concur. This finding was the result of the college's ensuring that its accounting practices were correct.

The Families First Program staff from the Tennessee Department of Human Services reviewed the College's program in November 1997, finding no problems with the program accounting. The College's Controller, however, was concerned with the interpretation of the base amount to be billed and requested a review by the State's auditors which resulted in an audit finding.

Charges to the Families First Program were therefore made for non-allowable costs because the Program Director and the Grant Accountant interpreted the reimbursement methodology differently when the fiscal year 1997 charges were made.

A payable has been recorded on the College's accounting records for the amount. A determination is being made of the total amount due since there are several off-setting credits due to the college.

Department of Human Services

We concur. It appears that Shelby State Community College has billed the Department of Human Services $115,672.51 for unallowable education and training cost. The Department will bill Shelby State Community College for the amount of the overcharge.

5. Refunds due to the Title IV Student Financial Assistance programs were not properly calculated or paid in a timely manner

Finding

The previous audit report indicated that refunds due to the Title IV Student Financial Assistance programs were not properly calculated or documented in 20 of 25 refund situations examined (80%). Management concurred with the previous audit finding and indicated that appropriate steps had been taken to correct the problem. Significant improvement was noted during the current audit period. However, in four of 24 refund situations examined (17%) for the year ended June 30, 1997, and seven of 20 refund situations examined (35%) for the year ended June 30, 1996, refunds were not correctly calculated. Also, numerous refunds were not returned to the Title IV Student Financial Assistance programs in a timely manner.

Noncompliance with the following requirements of the Title IV programs was noted:

a. According to the *Code of Federal Regulations,* Title 34, Part 668, Section 22 h.2.iv, "The amount of the refund . . . must be returned to the appropriate program account or accounts by the institution within 30 days of the date that the student officially withdraws, is expelled, or the institution determines that a student has unofficially withdrawn."

In nine of 24 cases (38%) in the year ended June 30, 1997, and two of 20 cases (10%) in the year ended June 30, 1996, refunds were calculated and sent to the appropriate Student Financial Assistance program, but the refunds were sent after the 30-day requirement because of conflicts over who was responsible for performing the calculations. The refunds ranged from 30 to 266 days late.

As a result of these errors, $2,052.90 in Pell funds for the year ended June 30, 1997, and $231.75 for the year ended June 30, 1996, were refunded late, which allowed Shelby State Community College to earn interest on federal Student Financial Assistance funds.

b. Federal regulations do not require any recalculation for changes in enrollment status after a student has begun attendance in all of his or her classes. However, the college may choose to recalculate an award if a student's enrollment status changes at any time within a term. If these recalculations are going to be performed, they should be consistently performed for all students. Shelby State Community College's policy is to perform recalculations for students whose enrollment status changes before financial aid checks to students are prepared.

In three cases examined in the year ended June 30, 1997, students withdrew from some of their courses before financial aid checks were prepared, but Pell was not recalculated. This resulted in questioned costs of $925.

c. Any refund must be determined as of the student's withdrawal date. According to the *Code of Federal Regulations* Title 34, Part 668, Section 22, j.1.i., "a student's withdrawal date is the earlier of (A) The date that the student notifies an institution of the student's withdrawal, or the date of withdrawal specified by the student, whichever is later; or (B) If the student drops out of the institution without notifying the institution (does not withdraw officially), the last recorded date of class attendance by the student, as documented by the institution."

In the year ended June 30, 1996, four students did not have refund calculations made based on their last day of attendance, resulting in questioned costs of $3,827.50 in Pell funds and $200.00 in Federal Supplemental Educational Opportunity Grant funds.

d. The *Code of Federal Regulations*, Title 34, Part 668, Section 22, requires pro rata refund calculations to be made for first-time students who withdraw on or before the 60% point of the enrollment period.

One student's pro rata calculation was incorrect for the year ended June 30, 1997, resulting in questioned costs of $92.50. Three students' pro rata calculations were incorrect for the year ended June 30, 1996, resulting in questioned costs of $101.45.

Recommendation

The Registrar and the Director of Financial Aid should develop and implement procedures to ensure the refund of Student Financial Aid funds are accurate and timely. Top management should review any procedures developed for adequacy and should monitor compliance with those procedures.

Management's Comment

We concur. In collaboration with the offices of the registrar and bursar, the financial aid office developed and implemented refund policies and procedures beginning in fiscal year 1998 to ensure timely and accurate refund calculations.

In brief the following steps are taken:

a. The registrar maintains withdrawal and last date of attendance records on the student information system.

b. The financial aid office regularly produces reports to identify students who withdraw officially or unofficially.

c. Using reliable refund calculation software (which was installed and tested in January 1998), the financial aid office performs the required refund calculations.

d. The student financial aid awards are adjusted to reflect the refunds and the bursar's office is notified.

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6. Financial assistance was awarded to students who were not eligible or for whom eligibility was not documented

Finding

As noted in the prior two audits covering a period of four years, Shelby State Community College awarded federal financial assistance to certain students without complying with all federal regulations. Management concurred with the prior findings and indicated that the situation was being addressed through additional training for staff, improving the computer system, and using consultants in fiscal year 1997. In the prior audit, nine of 90 student account files examined (10%) contained instances of noncompliance. In the current audit, six of 100 student account files examined (6%) contained instances of noncompliance.

From approximately $3,510,000.00 in Pell funds received in the year ended June 30, 1997, $75,883.35 of disbursements were tested. This testwork resulted in questioned costs of $215.00. From approximately $4,010,000.00 in Pell funds received in the year ended June 30, 1996, $71,948.23 of disbursements were tested. This testwork resulted in questioned cost of $713.50.

The following instances of noncompliance with the student financial assistance requirements contained in the *Code of Federal Regulations*, Title 34, Part 668 were noted:

For the year ended June 30, 1997

Student 1:

The award was based on full-time status rather than 3/4-time status.

Questioned Costs: Pell grant - $215

Student 2:

Financial aid transcripts were not in the student's financial aid file. The college subsequently obtained the transcripts.

Questioned Costs: $0

For the year ended June 30, 1996

Student 3:

Underawarded Pell funds based on enrollment status and expected family contribution.

Questioned Costs: $0

Student 4:

Remedial hours exceeded the amount allowable by Pell regulations.

Questioned Costs: Pell grant - $148

Student 5:

The award was based on more hours than the student was enrolled.

Questioned Costs: Pell grant - $292

Student 6:

The award was based on more hours than the student was enrolled.

Questioned Costs: Pell grant - $273.50

Recommendation

The Director of Financial Aid should develop detailed policies and procedures to ensure that only eligible students receive financial assistance. Adequate documentation of eligibility should be maintained for all aid recipients. Top management should monitor the accuracy of student financial assistance awards.

Management's Comment

We concur. During fiscal year 1998, verification and awarding policies and procedures were revised to ensure compliance and to make better use of technology. Documentation was developed and staff were trained accordingly.

Prior to making a financial aid award the counselor reviews the file to ensure that:

a. the applicant is an eligible student enrolled in an eligible program,

b. the applicant is making satisfactory academic progress,

c. there is no unresolved conflicting information, and

d. all required verification documents are in the file and required corrections have been made.

All awards are now reviewed for accuracy by management staff prior to releasing the award letter to the student.

7. Accounts receivable collection efforts need improvement

Finding

As noted in the four previous audits covering eight years, Shelby State Community College has not followed proper accounts receivable collection procedures. The finding in the most recent prior audit pertained to collection efforts, review of credit balances, and proper accounting for restricted receivables. Management concurred with the finding and corrected the review of credit balances and properly accounted for restricted receivables. Management stated, "Student accounts are being billed in a systematic manner and collected or written-off in accordance with college policy." However, proper collection procedures have not always been followed for all receivables.

Student Receivables

For 15 of 41 accounts examined (36.6%), collection efforts did not begin within 30 days and continue with at least three bills sent at 30-day intervals, as required by Tennessee Board of Regents (TBR) Guideline B-010. In addition, when third bills were sent, they did not indicate that debts greater than $25 would be referred to a collection agency or the Office of the General Counsel. This notice on the third bill is also a TBR requirement.

None of the 39 applicable accounts which should have been submitted to the collection agency or the Office of the General Counsel were properly processed as required by Guideline B-010. The 37 accounts with more than $100 of receivables were not submitted timely to the collection agency. The two accounts between $25 and $100 were not submitted to the Office of the General Counsel. For six of 34 applicable accounts (17.6%), no hold was put on students' accounts with overdue balances or write-offs.

Daycare Receivables

Charges are not always posted to accounts every Friday as required by the Shelby State Daycare Policy. Some charges have been posted as much as five weeks late. Also the third bill does not indicate that the account will be turned over to a collection agency if not paid. The policy states

> 2a. The ECE [Early Childhood Education] Center secretary will update all accounts at noon on Friday of each week . . . 5a. The third letter . . . will advise the parent that if payment is not made as specified, the receivable will be turned over to an outside agency for collection.

Proper collection efforts cannot occur if charges are not promptly posted to accounts.

Third-Party Receivables

When a school term is over, the college discontinues sending bills for that term's charges. Thus, overdue accounts are not pursued beyond the school term in which the charges were incurred. Thirty of 67 third-party accounts outstanding at June 30, 1997 (45%) had all or part of their balances overdue 90 days or more. The probability of collection is greatly reduced if the billing process is not carried out. TBR Guideline B-010 requires continued collection efforts.

Recommendation

Management should improve the billing process to ensure all accounts with balances are billed monthly. The third bill should state that the account will be sent to a collection agency or the Office of the General Counsel if not paid. Management should monthly review the aging report and submit to a collection agency any unpaid accounts which have been billed three times. Charges should be posted to accounts promptly. Third-party balances should be reviewed, billed, submitted to a collection agency, and/or written off as appropriate. Top management should frequently monitor the activities of the employees carrying out the accounts receivable collection duties to ensure adherence to established policies and procedures.

Management's Comment

We concur. The collection of accounts receivable remains a manual process at Shelby State. The College continues its efforts to create a system to meet required procedures that is compatible with the Student Information System being used. Although improvements have been made, as noted in the finding, complete compliance will be achieved this fiscal year.

Efforts to gain compliance to college policy from the Early Childhood Education Center staff is ongoing and will be resolved.

All other recommendations will be pursued rigorously.

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8. <u>Equipment policies were not followed</u>

Finding

Shelby State Community College has not followed its internal control policies and procedures for the safeguarding and financial reporting of equipment. The prior audit found the following weaknesses: the general ledger was not reconciled with the equipment listing, the equipment listing did not always show correct serial numbers, and equipment was not always in the location indicated on the equipment listing. Management concurred with the finding and outlined its plans for improvement.

Improvements have been made in some areas, but significant deficiencies continue. The general ledger was not adjusted to agree with the physical inventories until after the financial statements were prepared. As a result, the equipment balance at June 30, 1997, was overstated by $50,414.69 and at June 30, 1996, was overstated by $429,294.26. Adjustments were made to the financial statements included in this report.

Reconciliations between the equipment listings and the general ledger were not accurate or timely. Equipment additions were reconciled, a deductions number was obtained, and the amount needed to arrive at the ending balance was represented by what appeared to be a plug figure called "equipment previously written off." The June 30, 1996, reconciliation was not prepared until May 1997, and the June 30, 1997, reconciliation was prepared in August 1997 but was not used to adjust the general ledger.

The overstatements were the result of numerous problems:

a. Some expenditures for noncapital items were coded to equipment and some equipment items were coded as noncapital.

b. Equipment disposals recorded on the ledger did not match the disposal listings prepared by the purchasing office.

c. Equipment which had been missing was found but not accounted for on the general ledger.

d. An encumbrance was included in the equipment additions.

Numerous errors were also noted on the additions, deductions, and equipment listings obtained from the purchasing office:

a. Numerous items appeared on both the year ended June 30, 1997, and the year ended June 30, 1996, additions lists.

b. Three items totaling $4,298.00 were not on the equipment listing.

c. Equipment totaling $118,029.33 was removed from the equipment listing but was not included on the deletions listing. Documentation showed that $84,325.42 of the amount was surplused and $535.00 was traded, but the disposition of the other $33,168.91 is unknown.

d. Of the $66,770.41 shown on the June 30, 1996, equipment deductions listing, only $1,150.00 was applicable to that year. The other $65,620.41 had been removed from the inventory prior to July 1, 1995.

e. Some equipment on the deletions list was not removed from the ending inventory.

An internal audit report released May 12, 1997, noted weaknesses in the internal controls over equipment. According to the report $342,553 of equipment was missing from the 100% physical inventory. This amount represented 12% of the total items and 7% of the total cost. These equipment items were removed from the June 30, 1996, audited equipment total.

Improvement was noted in other areas. The college's internal audit staff examined equipment on the December 20, 1996, listing, and the Division of State Audit examined equipment additions for the audit period. Of 235 items observed, only 24 (10%) were not in the correct location, an improvement from the 30% error rate in the prior audit. However, 23 items (10%) had no property tags attached, an increase from the previous audit's error rate of 7%. All 15 applicable items (100%) had the correct serial number recorded on the equipment records, an improvement from the 12% error rate in the prior audit. Two of the 235 items (1%) could not be located.

Internal audit also randomly selected rooms on campus and compared the equipment found to the equipment records. Twenty-seven of the 147 items examined (19%) were not on the equipment records.

Proper inventory procedures are set forth in the college's policies and procedures manual as Policy V-3-2. Failure to follow proper control procedures for equipment could result in the unauthorized disposition of equipment and errors in financial reporting.

Recommendation

The property officer should ensure that all additions and deductions to equipment are reported to the controller accurately and timely. The property officer should also ensure that the equipment listing includes all information required by Policy V-3-2. The controller should ensure that the general ledger is reconciled with the equipment listing at least monthly and that necessary adjustments to the general ledger are posted before the financial statements are prepared. Upper management should monitor the controls for the safeguarding and reporting of equipment and ensure that they are functioning as intended.

Management's Comment

We concur. This finding relates to fiscal years 1996 and 1997.

Significant improvement were made in the area of reconciliations, account classifications and accounting for fixed assets during fiscal year 1998. Also, the fiscal year 1998 transactions were reported to the controller accurately and timely.

Monitoring is continuing by management to ensure that transactions are being executed in accordance with Policy V-3-2 and that all other transactions are recorded properly.

9. Internal controls over data processing need improvement

Finding

Computer Services management at Shelby State Community College has not implemented sufficient internal controls over important data processing areas. The following weaknesses were noted:

- The computer room door is left unlocked during business hours.

- Back-up cartridge tapes moved to and from the off-site storage location are still not logged; this situation was previously reported to management during the last electronic data processing (EDP) review performed by the Division of State Audit in March 1994.

- Except for certain system accounts, password lifetimes have not been established.

- Excessive log-on failures are not reviewed by management.

- Program changes originating from within the college, rather than from the Tennessee Board of Regents, are not documented; this situation has worsened since it was reported to management during the last EDP review in March 1994.

EDP management is responsible for establishing internal controls to protect computer-related facilities, equipment, and software. Failure to implement proper control procedures could result in unauthorized access to the computer services hardware and system accounts, unauthorized program changes, and impaired capability to locate backup files. It is recognized that turnover of computer services personnel has been a severe problem for several years. However, present staffing is at a sufficient level to maintain effective internal controls.

Recommendation

Computer Services management should carefully evaluate internal controls and implement procedures to assess risk, monitor compliance, and take corrective action. The computer room door should be kept locked at all times. An inventory of back-up tapes should be established and their movement to and from the off-site storage location should be logged. Password lifetimes of 30 days for Computer Services staff and 90 days for other users should be established. The DEC System User Access File (SYSUAF) listing should be regularly reviewed for excessive log-on failures. The Request for Computer Center Assistance form should be used to document program changes that originate from within the college. A record of the date, nature of the change, and the programmer should also be kept in a program change log section of the changed program.

Management's Comment

We concur. Computer Services agrees that the room should remain locked and has since secured the Computer Room. Computer Services personnel have been instructed to keep the door locked at all times.

At the time of the audit, detailed records of all tapes stored at National Security and Trust (i.e., the monthly back-up tapes for the past 30 months) were being maintained. Effective in February 1998, a log of tapes stored locally in the Bursar's Office was created and is now being maintained by the Computer Center Operator.

Computer Services agrees that regular password changes are a good practice and has implemented password lifetimes of 30 days for all accounts.

Effective immediately, the System Manager has begun reporting log-on failures (break-ins) on a weekly basis via the VAX/VMS Security Utility. This report will be sent electronically to the Computer Center Director for his review.

Within the past two months, the Computer Services programming staff has developed a database program using Microsoft Access 97; this database will track all projects related to application software. In particular, this includes all local modifications to SCT software. The database program will assign a sequential number to each project and will support the maintenance.

When a programming request is received, it will be entered into the system; and the project number that is generated by the program will be given to the staff member assigned to work on it. That number will be used in all documentation related to the project including comments in the source code of affected programs. Once all staff members have been trained on the database program, each programmer will enter his or her own projects. Computer Services management will review the projects list regularly. All future programming projects will be tracked in this way as and when they occur.

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10. <u>The Tech Prep grant was overcharged</u>

Finding

Although the Director of the Tech Prep program acquired additional responsibilities in January 1998 outside the scope of the grant program, her entire salary was charged to the Tech Prep program through June 30, 1998. As a result, $6,154.59 of her salary for that period has been questioned.

The director's other duties created two problems. First, to receive the budgeted salary amount, an employee under the Tech Prep grant must devote 100% of his or her time to that grant.

Second, her work on the Tech Prep grant was not appropriately documented. Office of Management and Budget Circular A-21, *Cost Principles for Educational Institutions*, Section J8b(1)(b), states that the "apportionment of employees' salaries and wages which are chargeable to more than one sponsored agreement or other cost objective will be accomplished by methods which . . . produce an equitable distribution of charges for employee's activities." An acceptable method would be for the college to estimate the percentage of time the employee will spend on the program and for the employee to sign an annual "percentage of effort" statement verifying that the work was performed. Failure to complete a percentage of effort form when she has more duties than those associated with the grant program could result in additional questioned costs. The grantor could discontinue its association with the college, and federal money could be withheld.

Recommendation

At the end of each fiscal year and at the end of each award year, each grant employee should be required to submit a percentage of effort form documenting the time spent on each grant. The grants accountant should ensure that the forms are completed and that the grant was properly charged before the end of the award year.

Management's Comment

We concur. Prior to the audit in July 1998 to review this activity, the institution recognized that the salary for the Tech Prep Director required an allocation between restricted and unrestricted and the allocation was made as part of the fiscal 1999 budget that was submitted to TBR in May 1998.

An accounting adjustment for the period January 1998 through June 1998 will be made.

The proper allocation of salary for all other employees who are charged to restricted and unrestricted were properly recorded.

Independent Auditor's Report

March 11, 1998

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of Shelby State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 1997, and June 30, 1996, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the college's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2 to the financial statements, the college has omitted the liability for accrued compensated absences from the accompanying balance sheets which should be included to conform with generally accepted accounting principles.

In our opinion, except for the effects of not including the liability for accrued compensated absences in the accompanying balance sheets, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Shelby State Community College, as of June 30, 1997, and June 30, 1996, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 1998, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/rm

Exhibit A

TENNESSEE BOARD OF REGENTS
SHELBY STATE COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 1997, AND JUNE 30, 1996

ASSETS	June 30, 1997	June 30, 1996
Current funds:		
Unrestricted:		
General:		
Cash and cash equivalents (Notes 3 and 4)	$ 933,631.52	$ 2,521,174.13
Accounts receivable (net of allowance of $526,535.00 at June 30, 1997, and $537,868.34 at June 30, 1996)	227,461.89	148,001.05
Inventories	65,200.73	42,550.37
Prepaid expenses	12,332.00	89,563.14
Due from restricted current funds	2,316,250.41	938,392.26
Total general	3,554,876.55	3,739,680.95
Auxiliary enterprises:		
Cash and cash equivalents (Notes 3 and 4)	18,763.50	29,409.11
Accounts receivable	10,253.18	19,371.11
Total auxiliary enterprises	29,016.68	48,780.22
Total unrestricted	3,583,893.23	3,788,461.17
Restricted:		
Cash and cash equivalents (Notes 3 and 4)	72,188.45	47,530.52
Accounts receivable	2,473,464.89	1,110,213.79
Total restricted	2,545,653.34	1,157,744.31
Total current funds	$ 6,129,546.57	$ 4,946,205.48
Loan funds:		
Cash and equivalents (Notes 3 and 4)	$ 11,370.09	$ 11,798.52
Notes receivable (net of allowance of $248,048.38 at June 30, 1997, and $245,130.83 at June 30, 1996)	2,372.15	1,991.34
Accrued interest receivable (net of allowance of $167,569.35 at June 30, 1997 and $158,760.35 at June 30, 1996	290.33	52.15
Total loan funds	$ 14,032.57	$ 13,842.01
Endowment and similar funds:		
Cash and cash equivalents (Notes 3 and 4)	$ 31,528.49	$ 31,452.49
Total endowment and similar funds	$ 31,528.49	$ 31,452.49

LIABILITIES AND FUND BALANCES	June 30, 1997	June 30, 1996
Current funds:		
Unrestricted:		
General:		
Liabilities:		
Accounts payable	$ 416,849.73	$ 576,069.47
Accrued liabilities	792,647.49	686,565.52
Deferred revenue	727,405.00	848,768.00
Checks payable	-	163,330.42
Disallowed costs	759,885.00	759,885.00
Total liabilities	2,696,787.22	3,034,618.41
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital	335,270.02	198,386.75
Allocation for encumbrances	161,933.88	301,613.25
Allocation for desegregation	28,206.00	36,923.23
Discretionary allocations:		
Allocation for athletics	2,213.00	2,466.00
Allocation for technology fees	43,863.00	57,078.00
Unallocated	286,603.43	108,595.31
Total fund balances	858,089.33	705,062.54
Total general	3,554,876.55	3,739,680.95
Auxiliary enterprises:		
Fund balances:		
Nondiscretionary allocation:		
Allocation for working capital	10,253.18	19,371.11
Discretionary allocation:		
Allocation for contingencies	8,000.00	10,632.00
Unallocated	10,763.50	18,777.11
Total auxiliary enterprises	29,016.68	48,780.22
Total unrestricted	3,583,893.23	3,788,461.17
Restricted:		
Liabilities:		
Accounts payable	95,367.06	44,648.96
Accrued liabilities	9,116.11	42,837.67
Deferred revenue	8,370.00	9,477.00
Due to unrestricted current funds	2,316,250.41	938,392.26
Total liabilities	2,429,103.58	1,035,355.89
Fund balances	116,549.76	122,388.42
Total restricted	2,545,653.34	1,157,744.31
Total current funds	$ 6,129,546.57	$ 4,946,205.48
Loan funds:		
Fund balances:		
U.S. government grants refundable	$ 3,025.78	$ 4,562.41
Institutional:		
Restricted - matching	336.20	506.93
Unrestricted	10,670.59	8,772.67
Total loan funds	$ 14,032.57	$ 13,842.01
Endowment and similar funds:		
Fund balances:		
Endowment	$ 31,528.49	$ 31,452.49
Total endowment and similar funds	$ 31,528.49	$ 31,452.49

TENNESSEE BOARD OF REGENTS
SHELBY STATE COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 1997, AND JUNE 30, 1996

ASSETS	June 30, 1997	June 30, 1996
Unexpended plant:		
Cash and cash equivalents (Notes 3 and 4)	$ 220,368.54	$ 168,875.56
Investments (Note 5)	333,900.00	333,900.00
LGIP deposit - capital projects	171,324.38	248,744.67
Accrued interest receivable	4,635.64	1,736.28
Accounts receivable	113,100.00	113,100.00
Total unexpended plant	843,328.56	866,356.51
Renewals and replacements:		
Cash and cash equivalents (Notes 3 and 4)	1,892,916.60	1,718,578.34
Investments (Note 5)	666,100.00	766,100.00
Accrued interest receivable	14,145.47	9,389.87
Total renewals and replacements	2,573,162.07	2,494,068.21
Investment in plant:		
Land	1,703,702.31	1,703,702.31
Buildings	25,763,738.54	16,753,152.70
Improvements other than buildings	963,147.51	949,143.51
Equipment	4,347,389.17	4,390,347.88
Library holdings (Note 11)	2,666,232.00	1,637,283.50
Construction in progress	173,924.66	7,648,363.96
Total investment in plant	35,618,134.19	33,081,993.86
Total plant funds	$ 39,034,624.82	$ 36,442,418.58
Agency funds:		
Nonfoundation funds:		
Cash and cash equivalents (Notes 3 and 4)	$ 24,395.94	$ 23,283.63
Accounts receivable	544.63	1,071.65
Total nonfoundation funds	24,940.57	24,355.28
Foundation funds:		
Cash and cash equivalents (Notes 3 and 4)	60,937.50	102,939.15
Investments (Note 5)	10,682.56	10,000.00
Accrued interest receivable	654.87	97.81
Accounts receivable	15,877.74	52,517.00
Notes receivable	16,832.84	4,420.50
Total foundation funds	104,985.51	169,974.46
Total agency funds	$ 129,926.08	$ 194,329.74

LIABILITIES AND FUND BALANCES	June 30, 1997	June 30, 1996
Unexpended plant:		
Liabilities:		
Accounts payable	$ 143,579.61	$ 29,824.08
Fund balance:		
Unrestricted	699,748.95	836,532.43
Total unexpended plant	843,328.56	866,356.51
Renewals and replacements:		
Liabilities:		
Accounts payable	7,332.29	7,441.74
Fund balance:		
Unrestricted	2,565,829.78	2,486,626.47
Total renewals and replacements	2,573,162.07	2,494,068.21
Investment in plant:		
Fund balance:		
Net investment in plant	35,618,134.19	33,081,993.86
Total investment in plant	35,618,134.19	33,081,993.86
Total plant funds	$ 39,034,624.82	$ 36,442,418.58
Agency funds:		
Nonfoundation funds:		
Liabilities:		
Deposits held in custody for others	$ 24,940.57	$ 24,355.28
Total nonfoundation funds	24,940.57	24,355.28
Foundation funds:		
Liabilities:		
Accounts payable	14,727.00	-
Deposits held in custody for foundation	90,258.51	169,974.46
Total foundation funds	104,985.51	169,974.46
Total agency funds	$ 129,926.08	$ 194,329.74

The notes to the financial statements are an integral part of this statement.

Exhibit B

TENNESSEE BOARD OF REGENTS
SHELBY STATE COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1997

	Current Funds				Plant Funds		
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Investment In Plant
REVENUES AND OTHER ADDITIONS							
Unrestricted current fund revenues	$ 22,019,832.64	$ -	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	159,745.48	-	-	-	-	-	-
State appropriations	-	84,257.00	-	-	1,423,583.06	-	-
Federal grants and contracts	-	5,202,808.54	-	-	-	-	-
State grants and contracts	-	277,256.07	-	-	-	-	-
Local grants and contracts	-	12,500.00	-	-	-	-	-
Private gifts, grants, and contracts	-	156,674.62	-	100.00	-	-	-
Interest on loans receivable	-	-	1,028.69	-	-	-	-
Investment income	-	4,259.56	8,809.00	1,713.00	27,821.46	108,981.85	-
Expended for plant facilities (including $541,645.50 charged to current fund expenditures)	-	-	-	-	-	-	2,091,796.04
Library revaluation (Note 11)	-	-	-	-	-	-	887,665.84
Total revenues and other additions	22,179,578.12	5,737,755.79	9,837.69	1,813.00	1,451,404.52	108,981.85	2,979,461.88
EXPENDITURES AND OTHER DEDUCTIONS							
Educational and general expenditures	21,913,978.85	5,645,946.80	-	-	-	-	-
Auxiliary enterprise expenditures	73,009.02	-	-	-	-	-	-
Refunded to grantors	-	-	2,634.00	-	-	-	-
Indirect costs recovered	-	97,647.65	-	-	-	-	-
Provision for doubtful accounts	-	-	8,750.13	-	-	-	-
Expended for plant facilities	-	-	-	-	1,536,146.54	14,004.00	-
Expended for noncapital items	-	-	-	-	110,541.46	16,601.54	-
Disposal of plant facilities	-	-	-	-	-	-	443,321.55
Total expenditures and other deductions	21,986,987.87	5,743,594.45	11,384.13	-	1,646,688.00	30,605.54	443,321.55

TENNESSEE BOARD OF REGENTS
SHELBY STATE COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1997

	Current Funds				Plant Funds		
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Investment In Plant
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)							
Nonmandatory:							
Renewals and replacements	(59,327.00)	-	-	-	-	59,327.00	-
Loan funds	-	-	1,737.00	(1,737.00)	-	-	-
Unexpended plant	-	-	-	-	58,500.00	(58,500.00)	-
Total transfers	(59,327.00)	-	1,737.00	(1,737.00)	58,500.00	827.00	-
Net increases (decreases) for the year	133,263.25	(5,838.66)	190.56	76.00	(136,783.48)	79,203.31	2,536,140.33
Fund balances at beginning of year	753,842.76	122,388.42	13,842.01	31,452.49	836,532.43	2,486,626.47	33,081,993.86
Fund balances at end of year	$ 887,106.01	$ 116,549.76	$ 14,032.57	$ 31,528.49	$ 699,748.95	$ 2,565,829.78	$ 35,618,134.19

The notes to the financial statements are an integral part of this statement.

Exhibit C

TENNESSEE BOARD OF REGENTS
SHELBY STATE COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1996

	Current Funds				Plant Funds		
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Investment In Plant
REVENUES AND OTHER ADDITIONS							
Unrestricted current fund revenues	$ 22,311,228.25	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Auxiliary enterprise revenues	212,632.08	0.00	0.00	0.00	0.00	0.00	0.00
State appropriations	0.00	84,100.00	0.00	0.00	5,703,876.12	0.00	0.00
Federal grants and contracts	0.00	5,773,296.76	0.00	0.00	0.00	0.00	0.00
State grants and contracts	0.00	304,935.58	0.00	0.00	0.00	0.00	0.00
Local grants and contracts	0.00	16,647.34	0.00	0.00	0.00	0.00	0.00
Private gifts, grants, and contracts	0.00	63,249.31	2,070.00	30,651.41	0.00	0.00	0.00
Interest on loans receivable	0.00	0.00	9,898.36	0.00	0.00	0.00	0.00
Investment income	0.00	5,660.15	0.00	801.08	38,674.60	89,337.17	0.00
Expended for plant facilities (including $732,053.07 charged to current fund expenditures)	0.00	0.00	0.00	0.00	0.00	0.00	6,511,444.88
Total revenues and other additions	22,523,860.33	6,247,889.14	11,968.36	31,452.49	5,742,550.72	89,337.17	6,511,444.88
XPENDITURES AND OTHER DEDUCTIONS							
Educational and general expenditures	22,267,739.30	6,196,126.58	0.00	0.00	0.00	0.00	0.00
Auxiliary enterprise expenditures	75,400.18	-	0.00	0.00	0.00	0.00	0.00
Refunded to grantors	0.00	1,295.00	233.00	0.00	0.00	0.00	0.00
Indirect costs recovered	0.00	142,846.86	0.00	0.00	0.00	0.00	0.00
Provision for doubtful accounts	0.00	0.00	7,088.51	0.00	0.00	0.00	0.00
Expended for plant facilities	0.00	0.00	0.00	0.00	5,708,806.37	70,585.44	0.00
Expended for noncapital items	0.00	0.00	0.00	0.00	69,914.67	4,119.80	0.00
Disposal of plant facilities	0.00	0.00	0.00	0.00	0.00	0.00	492,358.62
Library holdings revaluation	0.00	0.00	0.00	0.00	0.00	0.00	2,895.11
Total expenditures and other deductions	22,343,139.48	6,340,268.44	7,321.51	0.00	5,778,721.04	74,705.24	495,253.73

TENNESSEE BOARD OF REGENTS
SHELBY STATE COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1996

	Current Funds				Plant Funds		
	Unrestricted	Restricted	Loan Funds	Endowment and Similar funds	Unexpended	Renewals and Replacements	Investment In Plant
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)							
Mandatory:							
Unrestricted current funds	22.00	0.00	(22.00)	0.00	0.00	-	0.00
Nonmandatory:							
Renewals and replacements	(418,461.00)	0.00	0.00	0.00	0.00	418,461.00	0.00
Total transfers	(418,439.00)	0.00	(22.00)	0.00	0.00	418,461.00	0.00
Net increases (decreases) for the year	(237,718.15)	(92,379.30)	4,624.85	31,452.49	(36,170.32)	433,092.93	6,016,191.15
Fund balances at beginning of year	991,560.91	214,767.72	9,217.16	0.00	872,702.75	2,053,533.54	27,065,802.71
Fund balances at end of year	$ 753,842.76	$ 122,388.42	$ 13,842.01	$ 31,452.49	$ 836,532.43	$ 2,486,626.47	$ 33,081,993.86

The notes to the financial statements are an integral part of this statement.

Exhibit D

TENNESSEE BOARD OF REGENTS
SHELBY STATE COMMUNITY COLLEGE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1997

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 5,347,147.84	$ 87,428.87	$ 5,434,576.71
State appropriations	15,805,300.00	5,131,304.20	20,936,604.20
Federal grants and contracts	134,082.18	268,748.56	402,830.74
State grants and contracts	-	16,732.95	16,732.95
Private gifts, grants, and contracts	12,016.00	141,732.22	153,748.22
Sales and services of educational activities	380,401.55	-	380,401.55
Sales and services of auxiliary enterprises	159,745.48	-	159,745.48
Other sources	340,885.07	-	340,885.07
Total current revenues	22,179,578.12	5,645,946.80	27,825,524.92
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	9,553,586.78	930,258.92	10,483,845.70
Public service	177,664.06	317,684.02	495,348.08
Academic support	1,903,411.29	34,272.00	1,937,683.29
Student services	3,330,795.39	366,716.11	3,697,511.50
Institutional support	4,088,448.13	16,845.50	4,105,293.63
Operation and maintenance of plant	2,489,643.64	-	2,489,643.64
Scholarships and fellowships	370,429.56	3,980,170.25	4,350,599.81
Total educational and general expenditures	21,913,978.85	5,645,946.80	27,559,925.65
Nonmandatory transfers:			
Renewals and replacements	51,327.00	-	51,327.00
Total educational and general	21,965,305.85	5,645,946.80	27,611,252.65
Auxiliary enterprises:			
Expenditures	73,009.02	-	73,009.02
Nonmandatory transfer:			
Renewals and replacements	8,000.00	-	8,000.00
Total auxiliary enterprises	81,009.02	-	81,009.02
Total expenditures and transfers	22,046,314.87	5,645,946.80	27,692,261.67
OTHER ADDITIONS (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	91,808.99	91,808.99
Indirect costs recovered	-	(97,647.65)	(97,647.65)
Net increase (decrease) in fund balances	$ 133,263.25	$ (5,838.66)	$ 127,424.59

The notes to the financial statements are an integral part of this statement.

Exhibit E

TENNESSEE BOARD OF REGENTS
SHELBY STATE COMMUNITY COLLEGE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1996

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 5,498,188.89	$ -	$ 5,498,188.89
State appropriations	15,886,300.00	79,902.50	15,966,202.50
Federal grants and contracts	155,621.86	5,679,064.36	5,834,686.22
State grants and contracts	-	363,464.77	363,464.77
Private gifts, grants, and contracts	12,602.34	73,694.95	86,297.29
Sales and services of educational activities	385,614.57	-	385,614.57
Sales and services of auxiliary enterprises	212,632.08	-	212,632.08
Other sources	372,900.59	-	372,900.59
Total current revenues	22,523,860.33	6,196,126.58	28,719,986.91
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	9,784,217.95	942,893.64	10,727,111.59
Public service	199,826.26	602,037.19	801,863.45
Academic support	2,162,272.29	22,859.00	2,185,131.29
Student services	3,333,136.53	347,820.42	3,680,956.95
Institutional support	3,697,650.88	22,030.89	3,719,681.77
Operation and maintenance of plant	2,402,023.17	1,430.00	2,403,453.17
Scholarships and fellowships	688,612.22	4,257,055.44	4,945,667.66
Total educational and general expenditures	22,267,739.30	6,196,126.58	28,463,865.88
Mandatory transfers:			
Loan funds	(22.00)	-	(22.00)
Nonmandatory transfers:			
Renewals and replacements	407,829.00	-	407,829.00
Total educational and general	22,675,546.30	6,196,126.58	28,871,672.88
Auxiliary enterprises:			
Expenditures	75,400.18	-	75,400.18
Nonmandatory transfers:			
Renewals and replacements	10,632.00	-	10,632.00
Total auxiliary enterprises	86,032.18	-	86,032.18
Total expenditures and transfers	22,761,578.48	6,196,126.58	28,957,705.06
OTHER ADDITIONS (DEDUCTIONS)			
Excess of restricted receipts over transfers to revenues	-	51,762.56	51,762.56
Indirect costs recovered	-	(142,846.86)	(142,846.86)
Refunded to grantor	-	(1,295.00)	(1,295.00)
Net decreases in fund balances	$ (237,718.15)	$ (92,379.30)	$ (330,097.45)

The notes to the financial statements are an integral part of this statement.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The college is part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report.*

BASIS OF PRESENTATION

The financial statements of the college have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The college uses the AICPA College Guide model for accounting and financial reporting.

BASIS OF ACCOUNTING

The financial statements of the college have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings and (2) nonmandatory transfers, for all other cases.

FUND ACCOUNTING

To ensure observance of limitations and restrictions placed on the use of the resources available, the college maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the college retains full control for use in achieving any of its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include bookstore and food service operations. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

Loan Funds

Loan funds consist of resources made available for student loans.

Endowment and Similar Funds

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be used.

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes, (2) funds set aside for the renewal and replacement of institutional properties, and (3) funds expended for, and thus invested in, institutional properties.

Agency Funds

In handling these funds, the college acts solely as an agent; consequently, transactions of these funds do not affect the college's operating statements.

LGIP DEPOSIT–CAPITAL PROJECTS

Payments related to the college's capital projects are made by the State of Tennessee's Department of Finance and Administration. The college's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenditures are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the college for any other purpose until the project is completed and any remaining funds are released by the Tennessee Board of Regents.

INVENTORIES

Inventories are valued at the lower of cost or market. All items are maintained on an average-cost or first-in, first-out basis.

CHECKS PAYABLE

These amounts represent the sum of checks written in excess of the college's checking account balance.

ALLOCATION FOR WORKING CAPITAL

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

PLANT ASSETS

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Library books and other library holdings are valued at various standardized values which approximate current costs. Library books are valued at $48 per volume at June 30, 1997, and $20 per volume at June 30, 1996. Depreciation on the physical plant and equipment is not recorded.

SHELBY STATE COMMUNITY COLLEGE FOUNDATION

The college is the sole beneficiary of the Shelby State Community College Foundation. This private, nonprofit foundation is controlled by a board independent of the college. The financial records, investments, and other financial transactions are handled by the college, and the assets and liabilities of the foundation are included in the agency funds on the college's balance sheet.

NOTE 2. COMPENSATED ABSENCES

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. Generally accepted accounting principles require that certain accrued compensated absences and related benefits, the effects of which are material to the financial statements, be recorded as earned. The college's policy is to record such benefits as paid. The recognition of this liability for accrued compensated absences and related benefits would have increased the liabilities of the unrestricted current fund by $748,190.92 at June 30, 1997, and $829,503.22 at June 30, 1996, decreased the unrestricted current fund expenditures by $81,312.30 for the year ended June 30, 1997, and increased the unrestricted current fund expenditures by $45,084.22 for the year ended June 30, 1996.

NOTE 3. CASH AND CASH EQUIVALENTS

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 1997, cash and cash equivalents consisted of $850,187.63 in bank accounts, $1,835.00 of petty cash on hand, $100,000.00 of certificates of deposit, and $2,314,078.00 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 1996, cash and cash equivalents consisted of $39,949.35 in bank accounts, $600.00 of petty cash on hand, and $4,614,492.10 in the State of Tennessee Local Government Investment Pool.

NOTE 4. DEPOSITS

Some of the college's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

Deposits with financial institutions are required to be categorized to indicate the level of risk assumed by the college. Category 1 consists of deposits that are insured or collateralized with securities held by the college or by its agent in the college's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the college's name. Category 3 deposits are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the college's name.

At June 30, 1997, the carrying amount of the college's deposits was $1,950,187.63 and the bank balance including accrued interest was $2,338,534.23. Of the bank balance, $1,663,003.60 was category 1 and $508,330.00 was category, 3.

At June 30, 1996, the carrying amount of the college's deposits was $1,139,949.35, and the bank balance including accrued interest was $1,891,016.64, all of which was category 1.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 105% of the uninsured deposits.

NOTE 5. INVESTMENTS

The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the college and that endowment investments be prudently diversified. The Shelby State Community College Foundation is authorized to invest funds in accordance with its board of directors' policies. Investments are valued at cost, or in the case of gifts, at fair value on the date of receipt. Certificates of deposit have been included with other deposits in Note 4 to determine the adequacy of collateral security pledged.

The college's investments at June 30, 1997, and June 30, 1996 consisted of certificates of deposit with original maturities greater than three months. The foundation's investment's at June 30, 1997, and June 30, 1996, consisted of mutual funds.

NOTE 6. PENSION PLANS

A. Defined Benefit Plan

During the year ended June 30, 1997, the college implemented GASB Statement 27, "Accounting for Pensions by State and Local Government Employers." In accordance with that statement, at transition it was determined that a pension liability or asset does not exist for this plan.

Tennessee Consolidated Retirement System

Plan Description - The college contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230, or by calling (615) 741-8202, extension 139.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 7.36% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS' Board of Trustees. The college's contributions to TCRS for the years ended June 30, 1997, 1996, and 1995, were $713,551.43,

$619,617.86, and $613,790.00. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The college contributes to three defined contribution plans: Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated.* State statutes are amended by the Tennessee General Assembly.

` Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans for the year ended June 30, 1997, was $266,189.99, which represented 10% of the covered payroll, and for the year ended June 30, 1996, was $249,941.29, which represented 10% of the covered payroll. Contributions met the requirements for each year.

NOTE 7. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The college assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report.*

NOTE 8. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above $5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of $5 million has been established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 1997, the scheduled coverage for the college was $41,419,600 for buildings and $8,577,000 for contents. At June 30, 1996, the scheduled coverage was $41,419,600 for buildings and $7,607,800 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automotive liability, professional malpractice, and workers' compensation. The college participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the college participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated,* Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated,* Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $4,245,177.54 at June 30, 1997, and $4,079,734.15 at June 30, 1996.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real property were $354,450.38 for the year ended June 30, 1997. The amount for the year ended June 30, 1996, was $462,137.47. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1997, outstanding commitments under construction contracts totaled $268,253.26 for Library/Administration Building, building roof replacement, Beale Street Plaza, Daycare Center Renovation, and parking lot enlargement, all of which will be funded by future state capital outlay appropriations.

Litigation - The college is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

Questioned Costs - As of June 30, 1997, the college had not resolved $765,439.43 of questioned costs resulting from prior audits. In addition, the following costs were questioned as a result of the current audit.

Program	Amount Questioned
Child Care Data Base Grant	$ 4,680.67
Families First	115,672.51
Federal Pell Grant	5,874.95
Federal Supplemental Educational Opportunity Grant	200.00
Total	$126,428.13

Final resolution of these questioned costs will be determined by the grantor.

NOTE 10. PLEDGES

At June 30, 1997, unrecorded pledges totaled $18,371.38. These pledges are not restricted as to use and are due to be collected in the next fiscal year. It is not practicable to estimate the net realizable value of such pledges; therefore, they are not reflected in the accompanying financial statements.

NOTE 11. CHANGE IN ESTIMATE OF LIBRARY HOLDINGS STANDARDIZED VALUES

At June 30, 1996, library books were valued at $20 per volume, and other library holdings were valued at various standardized values. The valuations were reassessed at June 30, 1997, and the value for library books was increased to $48 per volume, and the standardized values for other library holdings were also increased or decreased by various amounts. As a result of the revaluation, library books increased by $1,275,904 and other library holdings decreased by $333,213, and net investment in plant, under the investment in plant fund subgroup, increased by $942,691 at June 30, 1997.